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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE reports on industry and trade show that business has made further progress during February, but the situation is still marked by irregularity and prospects for the future continue confused. A number of important lines of industry such as iron and steel and automobile manufacturing have had a substantial recovery from the December-January low points, but taking business as a whole the gains have not been broad enough to carry general conviction and the prevalent attitude is still one of uncertainty as to how much of the recent improvement can be counted on as permanent.

While admitting that tangible evidences of recovery are not as definite as was hoped two months ago, a re-examination of basic factors fails to reveal any fundamental reasons why we should not expect at least an average amount of good business during the year. Certain psychological factors, it is true, exist which may influence the trend. The fact of its being a presidential year, with the usual political investigations of business and charges and counter charges about prosperity, tends to keep business in a state of uncertainty, and may be a restraining factor, even though no seriously disturbing economic issues hang upon the election.

Aside, however, from such psychological influences, there seems no reason why business should not look forward to a year of gradual improvement. By and large there are no burdensome inventories to be worked off. On the contrary, inventories generally have been allowed to run down to the point where some stocking up would now seem to be in order. Money conditions continue easy and there is an abundance of funds seeking investment. Such conditions are favorable to enterprise and pave the way for projects whose carrying forward involves employment of labor and consumption of materials—in other words provides the ground work for general business recovery.

The Question of Over-Capacity

We are aware that industry in many lines is said to be overdone already in the sense that a productive capacity exists which is in excess of the consumptive demand. This does not mean, however, that new avenues for investment of capital no longer exist. So long as there is no limit to human wants there will be no limit to the possible expansion of industry and trade. There is never a state of general overproduction in the sense that all wants are satisfied. Business may be thrown temporarily out of balance by over-expansion in individual lines, but so long as people's wants remain unsatisfied there will always be opportunities for the employment of capital in supplying them.

The following excerpt from the New York Journal of Commerce relating to the rayon industry affords a sample of the way in which capital is constantly seeking out new fields of endeavor:

> With the du Pont interests about ready to start the construction of their new $8,000,000 rayon yarn plant near Richmond, Va., additional spur was given this trend toward expansion of domestic production by the decision of the Viscose Co. to erect a $1,250,000 addition at Lewiston, Pa., which is expected to be ready at the end of the year, increase the capacity at that center 55 per cent, or 7,000,000 pounds annually, give employment to 2,000 more rayon workers and raise the Viscose Co.'s total capacity to 67,000,000 pounds annually, or only seven or eight million pounds short of the total domestic output last year. The Industrial Rayon Corporation is about to build a second plant in the South, and both the Bemberg and Glanzstoff branches are completing sizable works.

Our industries are forever making themselves over, and these changes are affording new openings for the employment of capital. There is already over-capacity in the textile field, but that does not prevent new cotton mills from going up in the South where new methods and new conditions give these mills a competitive advantage. Similarly, there has been over-capacity in the flour milling industry for years, notwithstanding which there has been a great increase of capacity at certain centers, notably Buffalo and Kansas City, where the trend of the wheat trade has created a demand for additional facilities. Thus the question is not so much one of over-capacity as it is one of whether there

is any chance of improving on existing methods and conditions. After all, a large part of the business of the country is constantly due to the replacement of old things by new, and so long as these opportunities exist,—and they are limitless,—there will be no lack of new ways of putting capital to work.

Inevitably, however, an increasing supply of capital at low interest rates quickens these processes of change and puts business under stress of keen competition from those units which are most progressive in the adoption of the newest and most efficient devices. Under such conditions it is not surprising that there should be much complaint about profits, for the natural effect of all this is to require a higher competency in management and to speed up the elimination of the unfit. In the end the lowering of production costs which ensues will place the business of the country upon a more economical footing, and if we can but match the economies already accomplished in production with similar economies in the distribution of goods to the consumer, this should tend not to decrease but to increase the aggregate volume of trade.

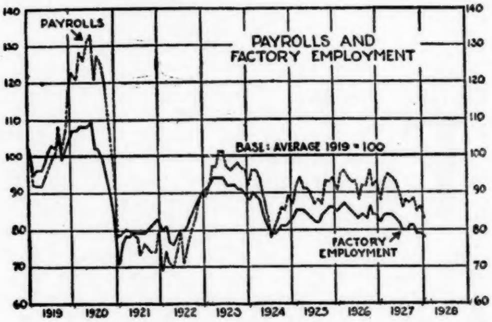
The Unemployment Situation

One of the features of the present situation which is causing concern is the amount of unemployment. For some time it has been evident that the surplus of workers was gradually increasing, but only recently has the situation become sufficiently serious to command general attention. With the sharp slump in industry at the close of last year, employment has been cut, and both Federal and State labor department reports indicate the level of active factory labor in December and January to have been the lowest since 1921.

This decrease in employment appears to be partly the result of the curtailment of production late last year, and partly the cumulate effect of economies in the use of labor which industry has been instituting during recent years. Forced by competition and high wages, industry has gone far in the adoption of labor saving devices and these have greatly increased the output per man. Some idea of what has been accomplished in this direction may be gleaned from the following table based on Department of Labor figures and showing the percentage increase in labor productivity in ten important industries over the period from 1914 to 1925:

Rubber tires	211%	Flour milling	40%
Automobiles	172%	Paper and pulp	34%
Petroleum	83%	Sugar refining	28%
Cement	61%	Meat packing	27%
Iron and steel	59%	Leather tanning	26%

As result of this increased efficiency, individual concerns have been enabled to turn out the same or a larger volume of goods with fewer workers, and factory employment has been on the decline for several years. Even 1926, which was a big year for production, showed factory employment approximately 8 per cent below the average for 1923 and 15 per cent below that for 1919. This is shown by the following diagram which compares Department of Labor figures for employment and aggregate payrolls of factory workers since 1919.



Nor has industry been alone in economizing on labor. That the railroads have been learning the same thing is evidenced by the fact that workers on their payrolls declined from 2,136,000 in October, 1920, to 1,784,000 in October, 1927. Agriculture also has been getting along with fewer workers as represented by an estimated net movement of approximately 1,000,000 of the farm population to the cities during 1926 alone.

Thus it is apparent that for some time a large scale displacement of labor has been going on, but until recently the process of distribution has gone forward smoothly and without friction. So long as business generally was operating at high levels, workers released from one industry were readily absorbed by the expansion of other industries. We know this from the absence of any serious unemployment during recent years, and from such evidences of general well being as growth of savings deposits, life insurance sales, and investments in building and loan associations. While we do not have complete data to show just how this absorption took place, figures quoted by Dr. Julius Klein, Director of the Bureau of Foreign and Domestic Commerce, are of interest in this connection. He said:

> What has happened to the many thousands who have admittedly been displaced in our factories by machinery? The answer is simple; they have gone into non-manufacturing pursuits. During this post-war period the number of workers engaged in automobile servicing and distribution has increased over 750,000. The new-born radio trade, exclusive of its manufacturing aspects, has taken on about 125,000 more helpers in that time. Motion picture theatres and services, exclusive of production, account for another 125,000 increase. The most impressive single figure is in personnel for hotels and restaurants. There are no precise data on this item, but various estimates of the increase in employment rolls of this

industry since 1919 run upward from 500,000 to nearly one million—an astonishing figure, but even with liberal discount it remains one of the two outstanding elements in the growth of employment since the War.

When the slump in business came towards the end of last year, this process of absorption was slowed up and unemployment increased. According to estimates of the United States Department of Labor unemployment at the recent low point of industry involved approximately 1,000,000 workers. This is the largest amount of unemployed since 1921, but it is still considerably below the estimated 5,000,000 out of work at that time. Since January, however, industry has been taking on additional workers, and if the trend continues forward and proposed Government works are carried through, the situation should gradually right itself. While temporarily the substitution of machinery for man power may involve hardships, ultimately the increased efficiency resulting therefrom redounds to the benefit of the entire community, including labor, in higher wages, enlarged consuming power, and sustained employment and prosperity.

The Outlook for Steel

Examination of the condition of individual industries reveals improvement most pronounced in iron and steel and automobile manufacturing. Steel production during January exceeded that of December by 26 per cent and was 5 per cent ahead of that in January a year ago, while during February mill operations got up to 85 per cent of capacity as compared with under 60 per cent at the December low point. Though the buying in recent weeks has not been large enough to materially increase the backlog of unfilled orders this is not causing any uneasiness in the industry inasmuch as some lull after the active contracting earlier in the year is regarded as normal. Generally speaking the steel industry views prospects for the year optimistically, believing that tonnages will compare favorably with those of 1927, while the price structure is expected to be better. Advances in prices already effected since the November low point are reported to be holding satisfactorily.

Outlook for steel consumption is good in building, automobile, farm implement, and miscellaneous lines. Consumption by the railroads, however, may be less, due to the decline in railway traffic and earnings during the past year.

Definite upturn in the automobile industry during January was indicated by an expansion of production to 225,039 cars and trucks, compared with 133,547 in December, and the largest monthly total since September. While output was still slightly below that of January a year ago, this appears to be due mainly to the fact that the resumption of activity at the Ford plants has not been as rapid as was first expected. The General Motors Corporation and a number of the leading independents have been making exceptionally fine records with respect both to production and sales. Taking the year as a whole aggregate production of all makes should exceed that of a year ago.

Building Improves

One of the most reassuring features of the present situation is the good beginning made on the new year by the building industry. The value of construction contracts awarded throughout the country in January was 11 per cent greater than those awarded in January a year ago, and even the figures of permitted building in leading cities, which heretofore have been showing consistent decreases, recorded a gain, further confirming the indications that the slump in construction work has reached bottom. Notwithstanding the large amount of building that has been going on in recent years, leaders in the industry look forward to a good year in 1928. On the whole, conditions are said to be sounder than they have been in some time, with a falling off in speculative building, a concentration of work in more responsible hands, a labor supply rendered more efficient by the presence of some unemployment, and an abundance of funds for financing projects. Trend of building is expected to be towards large units requiring large amounts of capital, with public building and engineering projects such as road building and bridge and subway construction looming large in the totals.

The Trend Elsewhere

The lumber industry has likewise been experiencing a pronounced upturn, and sales, production, and shipments in the softwood branch have been running in excess of those of a year ago. The canning industry, which a year ago was still facing large stocks left over from the heavy 1926 pack, is now liquidated and in a better position to go ahead. Meat packing, after an unsatisfactory year last year due to the drop in hog values and consequent losses in inventory, is another line which sees brighter prospects in 1928, the stabilization of hog prices promising better merchandising conditions. The fertilizer industry is expecting to benefit from the higher prices of cotton and the indicated increase in cotton acreage this Spring. The oil outlook has brightened perceptibly, due to determined efforts to control production; leaders in the industry express more optimism regarding the future, and indications appear to be that conditions in that line are beginning to mend.

Contrasting with the better trend in these lines, non-ferrous metals have been reactionary. Copper, while holding most of the recent

price advance, has turned very dull, while lead, zinc, and tin have declined to new low levels.

The cotton spinning industry is still struggling with overproduction, and though operations have been cut already from the high point of last year the prevailing opinion in the trade is that curtailment must be extended further before the situation can be expected to right itself. In the wool market, the trend of prices continues forward, due to moderate supplies of raw wool, but reports from the manufacturing end still reflect dissatisfaction with conditions. The silk industry, on the other hand, appears to be experiencing a definite revival, accompanying the stronger tone manifest in the raw silk market.

Other unsatisfactory spots in the business situation include the coal industry, which continues to contend with overproduction and subnormal demand due to warm weather and diminished industrial activity. Rubber during the month experienced a drop of 10 cents a pound to 28.3 cents, the lowest since 1924, on prospects that the Stevenson restriction act may be abandoned or radically modified. Raw sugar likewise weakened to new low prices for the year at 2.41 cents a pound, due to pressure of last year's record crop, increase in visible supplies, and hand-to-mouth buying, the market ignoring the unquestioned depletion of invisible stocks and proposed artificial regulation of crops during the coming year.

The Railroads in 1927

Final figures for all results of railway operations in 1927 are not available, but the preliminary estimate issued by the Bureau of Railway Economics on February 11, shows gross and net operating revenues, taxes, operating ratio and rate of return on property investment of the Class I roads have been as follows:

CLASS I RAILROADS—UNITED STATES

	1927	1926
Total operating revenues	$6,206,986,000	$6,465,342,000
Total operating expenses	4,626,932,000	4,728,540,000
Taxes	380,638,000	395,203,000
Net railway operating income	1,085,485,000	1,233,048,000
Operating ratio—per cent	74.54	73.14
Rate of return on property investment	4.40%	5.13%

Gross earnings held up well in the first half of the year, the decline from the corresponding period of 1926 being less than one-half of 1 per cent, but net income declined 4.6 per cent as the result of wage advances granted by the mediation boards. In the second half the declines in gross and net were progressive, in the former 5 per cent and in the latter 17 per cent. For the full year the gross declined 4 per cent and the net about 12 per cent.

Against a decline in the year of $258,356,000 in total operating revenues, the companies were able to reduce operating expenses $101,608,000 but taxes were less by $14,565,000, owing to the decline of income. It is of course common experience that the railroads cannot reduce expenses to correspond with a declining volume of traffic, but the American Railway Association has released figures indicating that the efficiency of operations was the highest in history. Further gains were accomplished in increasing the average freight load per train and the average conservation of coal.

An average of 131 pounds of fuel was required in 1927 to haul 1,000 tons of freight and equipment, including locomotive and tender, a distance of one mile. This was the lowest average ever attained by the railroads since the compilation of these reports began in 1918, being a decrease of six pounds under the best previous record, established in 1926.

The cumulative economies which the roads have accomplished since 1920 are very important, but the results to the companies in the aggregate have been largely offset by the constant wearing down of freight rates, under the unremitting efforts of shippers and localities to obtain reductions, together with wage advances. The Railway Bureau of Economics has calculated that if the freight rates in force in 1921 had been in force in 1927 the aggregate earnings of the roads would have been $950,000,000 larger than they were in the latter year.

The railway authorities urge upon the consideration of the public that the operating economies which have been accomplished are due in an important degree to improvements in organization for the mass-handling of traffic, and that while a considerable increase of traffic would involve relatively small additions to operating expenses, a falling off of traffic likewise affords relatively small opportunity for reducing expenses, without impairment of service.

The loss of passenger revenue from the competition of the automobile and motor busses has been a continuing factor. The Interstate Commerce Commission has found that in the period from 1920 to 1926 inclusive, passengers carried by the Class I steam railroads decreased from 1,234,862,048 to 960,343,019, or 30 per cent, while passenger revenues decreased from $1,286,613,273 to $1,041,822,049, or 19 per cent. This is something to consider in the adjustment of freight charges, for nothing is more certain than that the railroads must in some way recover this lost revenue. It is true that the railroads have no claim to be protected in any traffic which developments in other forms of transportation service may cause them to lose, but so long as the railroads are indispensable as the most economical means of handling the bulk of traffic, the service they render will have to bear a charge sufficient to cover costs and a reasonable profit.

Notwithstanding the provisions of the transportation act of 1920, intended to assure a fair return upon capital invested in railroads, net earnings year after year fail to equal the percentage named by the Interstate Commission as constituting such return. In no year, according to the "Railway Age," have they equalled it, although the increasing volume of traffic up to 1926 favored the accomplishment, and evidently it would have been accomplished but for the concessions to shippers and employes. The return in 1927 was approximately 4.40 per cent, against the 5¾ per cent fixed by the Commission as the reasonable return due.

Individual roads, favorably situated, have been able to make better than the average return, but it must be considered that these earnings enter into the computed average of 4.40 per cent, and that many companies are falling below the average.

Railroad Financing in 1927

The total of railroad financing done in the United States in 1927 was only a little short of $1,000,000,000, the figures being $999,930,000. Of this, $777,208,000 was in bonds or notes, $49,036,700 was in preferred stock, issued by the New York, New Haven & Hartford Company, and $173,685,340 was in common stocks.

Following is a list of the latter issues. It will be noted that $32,500,000 was an issue in this market of the Canadian Pacific Railway Company.

Atlantic Coast Line	$ 13,756,500
St. Louis-Frisco	15,096,500
Baltimore & Ohio	63,242,500
Bangor & Aroostook	1,468,000
New York Central	38,325,440
Canadian Pacific	32,500,000
Atchison, Topeka & Santa Fe	9,296,400
	$173,685,340

This is a gain for stock issues over previous years, but the proportion which stock issues form of total financing is still too low for the maintenance of a sound financial structure.

Statement by Daniel Willard

Mr. Daniel Willard, President of the Baltimore & Ohio Railroad, in an address recently before the Illinois Chamber of Commerce, discussed this subject in a very illuminating manner, using the experience of his own company as an illustration. He said:

If it were a fact, which happily it is not, that our country had stopped growing and consequently the present equipment and facilities would continue to be ample to meet all future requirements, there might not be any particular thing in the situation deserving of our consideration at this time. Believing, as I do, in the potency of a concrete fact or example, I will illustrate my point by particular reference to the Baltimore & Ohio Railroad, of which company I have been president for nearly 18 years. Since I became president we have spent more than $400,000,000 for additions and betterments to the property, including new equipment, which is at the rate of something more than $23,000,000 each year, and I believe it will be necessary for us to spend annually for some years to come upwards of that same amount.

A very important problem confronting the Baltimore & Ohio, therefore, is how is this new capital to be obtained? We can obtain the new capital needed if our credit is satisfactory, and we cannot obtain it otherwise. During the last 17 years which I have been discussing, all the railroads in the United States, including the Baltimore & Ohio, spent $9,500,000,000, an average of $560,000,000 a year, for additions and betterments, the Baltimore & Ohio capital expenditures being about 4 per cent of the whole. The problem just alluded to, therefore, is one which confronts all of the railroads and not simply the Baltimore & Ohio.

You will perhaps be surprised when I tell you that, with the exception of some $80,000,000 taken from surplus earnings during the period under consideration, all of the $400,000,000 spent by the Baltimore & Ohio for additions and equipment was obtained by increasing the mortgage upon the property—a process which I hardly need say should not be, and in fact can not be, followed beyond certain very definite limits. While in our case the limit had not actually been reached, it had none the less been approached, and we recognized the desirability of readjusting our capital structure, which we recently were able to do by the sale of a substantial amount of our common stock.

Again I may say that if we as a nation had stopped growing, the Baltimore & Ohio might now consider itself in very satisfactory circumstances, but fortunately as a nation we expect to grow and expand and on that account we must continue to enlarge our facilities if we are to keep in condition to furnish the public, or our part of it, with "adequate transportation at reasonable rates," as the Transportation Act prescribes. * * *

It has been claimed by some that Section 15-a of the Act is equivalent to a definite guarantee of a certain fixed return to the railroads. Of course, it is nothing of the kind, nor was it intended to be. On the other hand, there is no use minimizing the real intent of the words I have quoted. They do, at least, outline a definite policy adopted by Congress for the equally definite purpose of perpetuating the policy of private ownership and operation of the railroads. The members of Congress who voted for the Transportation Act realized clearly that private ownership of the railroads would not be a success and therefore could not continue unless the railroads as a whole were able to raise each year a large sum of money, probably more than a half billion dollars, for necessary additions and betterments, and with that thought in mind the Transportation Act was framed and passed. * * *

The Pennsylvania Statement

Conspicuous among the financial statements of railroad companies available for the year 1927 is that of the Pennsylvania. Its showing of net income, amounting to $68,160,000, being equal to 13.6% on the capital stock, as against 13.5% in 1926, again calls attention to the remarkable improvement in operating results which has been achieved by this company during the past few years. The public interest in this performance is much broader than its effect on the Pennsylvania Railroad Company. What it has done is not only a demonstration of progress in railroading, but an object lesson to management in all the industries and to governmental administration as well.

The results for the year 1927 are especially noteworthy, in that they were accomplished in the face of decreases in both freight and passenger traffic, which were especially large in the last half of the year, resulting in a reduction in gross revenues of nearly $45,000,000, or 6.3% off the income figures for 1926. This loss in gross revenue was completely offset by

various economies and increased efficiency of operation. The decrease in operating expenses amounted to almost $40,000,000, or 7.2%. Taxes decreased $1,400,000. Net equipment and joint facility rents were cut $1,307,000. An increase of $3,347,000 was produced in non-operating income. Net income performance was an increase of $600,000 in 1927 over 1926.

The principal savings in operating expenses were $4,432,000 in Maintenance of Way and Structures, $21,002,000 in Maintenance of Equipment and $14,763,000 in Transportation costs.

It is generally recognized that expenditures for Maintenance of Way and Structures are somewhat elastic, the amounts expended in any particular year being dependent very largely on the state in which the property had previously been maintained. However, it is stated that normal quantities of rail and cross ties were put into the track and the property as a whole was in good operating condition at the close of the year.

The large decrease in Maintenance of Equipment expenses, amounting to $21,000,000, may be attributed to the increased efficiency of the forces in this department, the chief items of decrease being over $8,000,000 in steam locomotive repairs and more than $10,000,000 in freight train car repairs. However, in spite of this large reduction in repair cost the average percentage of unserviceable equipment was smaller in 1927 than in 1926. This increased efficiency means that the company is getting the results of concentrated heavy repair and replacement work in the newer and larger shops. Mass repair and renewal production work is the real answer. Better machinery, and shop tools means quicker shop work and more active mileage.

The decrease in Transportation Expenses, amounting to $14,763,000, is of course due in some measure to the reduced amount of traffic handled during the year. It is significant however, that the percentage of decrease in this account was almost as great as the percentage of reduction in gross operating revenues, and that this decrease in Transportation costs was effected in the face of increases in rates of pay granted to train and engine service and other classes of employes during the year.

The achievement of the Pennsylvania in 1927 is not a show performance. The operating ratio, that is the relation of total operating expenses to gross revenues, was reduced to 77%, this being the seventh consecutive year in which a reduction as compared with the previous year was effected.

Operating Efficiency in 1923 and 1927

In explanation of the large increase in net income of the Pennsylvania Railroad which has taken place in recent years, and as evidence of the various economies and increased efficiency in operation, comparison has been made of certain operating statistics for the year 1927, as compared with 1923, the latter year being chosen for the reason that it is the year in which the Pennsylvania earned the largest amount of gross revenue in its entire history. It is also removed from the war period and the depression and strikes of 1921 and 1922. 1923 was, moreover, the year in which the American Railway Association inaugurated its campaign for greater efficiency and improved service to the public.

Between 1923 and 1927 the average net tons per train on the Pennsylvania increased from 891 to 930, and at the same time there was an increase in train speed from 9.3 to 11.2 miles, this resulting in an increase from 8,322 net ton miles per train hour in 1923 to 10,414 in 1927, an improvement of approximately 25%. Another evidence of economy and increased efficiency is found in the reduction in the amount of fuel consumed in both freight and passenger train service, the pounds of coal consumed per 1,000 gross ton miles of freight having been 152 in 1923, and 128 in 1927, while the number of pounds per passenger train car mile was reduced from 19 in 1923 to 17.5 in 1927. On the basis of the average price paid for locomotive fuel in 1927 this reduction in unit consumption resulted in a money saving of about $3,850,000. Going back to 1923 when conditions were normal and net earnings light does not tell the whole story. At the close of 1920 the management stopped war explanations, took off its coat and vigorously gripped wages, materials and transportation output. It now gets the work done with 100,000 less men than in 1920 and with about $75,000,000 less of materials, and is giving the public some of the pre-war Pennsylvania service which won for it the title of the Standard Railroad of America. It freely acknowledges that it has had the benefit of more constructive regulation and public opinion and prides itself above all in having the loyal service of its employes. To this it is proper to add another factor, viz: wide-awake corporate management.

The Southern Railway System

The Southern Railway makes a showing of net results for 1927 that is especially notable in view of a decline of 12 per cent in gross passenger receipts, attributed mainly to a falling off of winter travel. The decline in freight revenues was approximately equal to the average for all railways in the country last year. The gross of operating revenue was $147,639,000, against $155,468,000 in 1926, and of operating expenses $103,908,000, against $107,867,000. Including all other income and after taxes, rents, etc., and fixed charges, the net income available for dividends was $23,597,000, and

after $3,000,000 for preferred dividends the balance for 1,300,000 shares of the common stock was $18,700,000 or $14.38 per share, against $15.84 in the preceding year. Thus the available net was more than double the dividend on the common shares and in addition there was an estimated equity of $1.82 in undistributed earnings of subsidiary companies.

The Southern displayed excellent control over operating expenses, with a reduction of 3.67 per cent in comparison with 2.2 per cent for all roads. The ratio of total operating expenses to gross operating revenues was 70.4 per cent, against 69.4 per cent in 1926 and 69.5 per cent in 1925. The fine physical condition of the property and large expenditures in recent years upon improved roadway and equipment are largely responsible for this. Maintenance expenditures amounted to 31.5 per cent of gross operating revenues, as compared with 30.8 in 1926.

The Southern invested about $15,000,000 in 1927 in replacements and improvements, the more important of which are as follows:

New engine terminals and enlarged yards at Chattanooga, Jacksonville, Winston-Salem and Columbia.

Installation of mechanical coal handling plants at 12 coaling points.

New freight terminal at Asheville, N. C.

Purchasing of 85,000 tons of new rail, mostly of 100 pound weight and relaying of 500 miles of track.

Equipment of 1,279 miles of track with electric automatic block signals and 2,265 miles of automatic train control system.

Construction of telephone dispatching lines between additional points. Southern now has 2,808 miles of line equipped with the telephone.

Renewal of approximately 50 bridges and trestles scattered over 18 divisions. These have been replaced by structures of greater strength, designed for bearing heavier loads and more powerful locomotives.

This is a continuation of the persistent investment for the purpose of reducing operating costs which has had so much to do with making the Southern System what it is today. At the close of 1927 the management displayed its confidence in the prospective growth of traffic by giving the largest aggregate of equipment orders in its history, including 68 locomotives, 5,500 freight and 25 baggage and postal cars.

Agricultural Conditions

The prices of wheat and corn have improved of late, corn coming close to the dollar mark in Chicago for the May delivery. The gain in wheat has been despite improved conditions for the Fall-sown crop, which has received needed moisture. The latest estimate of our Department of Agriculture upon the world wheat production in 1927 is 3,438,000,000 bushels, against 3,317,000,000 bushels in 1926.

The live stock markets have shown little change. The complete recovery of the cattle market from the great depression following 1920 is illustrated by the following paragraph from the market notes of the Kansas City Telegram:

Speaking of cattle prices, M. G. Bruce of Stamford, Tex., who marketed a string of mealfed steers at $13.25, remarked that it looked high, when he looked back to the time when he was well pleased when he received $5 for cattle of the same weight and kind. Then carrying this comparison along and comparing it with other cattle, Mr. Bruce stated that cow prices seem to show a still greater advance in price than steers. "Good cows bring $75 each in our country, provided they can be found for sale," said Mr. Bruce. "All this plainly shows that something is going on in the cattle world. We have heard of a cattle shortage for a good many years, but now we are beginning to believe that it actually exists. It has not been so many years ago when the best of cows could have been bought at $20 each. When cows are in good demand, and at such high prices, it seems to indicate there is a scarcity in cattle, as it is the cows that are required in producing the stock. Then we find a steer shortage also exists, as aged steers in our part of the country never were scarcer, and there has not been a time in the history of our territory when it was so easy to sell cattle, and at good paying prices."

Hogs are depressed. Receipts of the latter at Chicago in January were about 25 per cent higher than in January of last year. Pork production in Europe is on a scale which curtails exports from this country. The International Institute of Agriculture reports the number of hogs in Germany, December 1, 1927, as 22,888,000, against 19,412,000 on the corresponding date in 1926. The exports of Danish bacon to England have increased largely since 1924 and Poland and Czechoslovakia have increased their exports.

The Cotton Market

The price of cotton touched the low point thus far on this crop on February 2, at 17.45 cents per pound for the spot delivery in New York. This was a net decline of nearly 6 cents from the high point on the crop in August. Among the influences making for the decline were a slackening of mill consumption in this country and pessimistic reports from the cotton goods industry in Europe. The falling off of exports also has been a factor, although this was to be expected from the heavy accumulation of stock by foreign mills and dealers from last year's crop. Exports from August 1 to February 24 were 2,370,000 bales under those for the corresponding period of last year. Other influences were an apprehension that the prices prevailing last Fall would induce a considerable increase of next crop acreage and an opinion that sharp winter weather had reduced the danger of weevil depredations. A reaction from the downward movement has occurred in the past month, carrying the price above 19 cents.

The Middleman Loses

The long decline from August to February was hard on distributors of cotton. They were operating almost continuously on a falling market, always a position of difficulty. The crop moved rapidly, which means that dealers and speculators took a large share of it for

subsequent distribution. The spinners bought cautiously, in the hand-to-mouth fashion which has been popular among both manufacturers and merchants, and the middlemen have not been able to obtain reimbursement for the prices at which they started the crop.

The common theory about the present marketing system is that the speculators keep prices down at harvest time and during the months of heavy movement, raising them after the crop has passed out of the hands of the producers. The first month of the new cotton crop year is August, and in August last the spot prices of the middling upland reached 23.25 cents per pound. In September the range was downward from 23.9 to 20.55, in October the range was from 21.8 to 19.90, in November from 21.3 to 19.3, in December from 20.15 to 18.6. In these months the net price movement in each month was downward, except in December, which began at 19.65 and closed at 20.10. January began at about 20 and closed at 18.15.

It is strong evidence of the service of the speculator to cotton producers that notwithstanding a carry-over so large as to give absolute assurance of an abundant supply during the crop year then opening, the market should start off with the prices which ruled through last August and September. It is improbable that this would have been the case if only spinners had been buyers.

The above figures do not reveal the most serious difficulty in which the cotton merchants have been involved. This relates to forward sales on certain grades and staples. Manufacturers of different kinds of goods require particular grades of cotton, and competition among dealers causes the latter to enter into contracts to supply such needs at future dates, the dealers to acquire the cotton in the meantime. Experience qualifies them to calculate with a close degree of accuracy the supplies of the different grades which will be available. This year, however, the crop has been uniformly of higher quality than usual, and the result has been that the lower grades are in short supply and the dealers have been oversold on them to a very costly extent.

One more feature served to complicate the situation. In order to obtain specified grades and staples sold ahead by them, shippers were forced to buy round lots of cotton. This operation left them long on the basis of a considerable amount of high grade cotton for which they had no immediate outlet. With a subsequent easing in the basis along with a decline in the price of cotton, these shippers were left in a still more uncomfortable position.

The dealers do not get much sympathy from the public in their difficulties, but the situation described shows that they are engaged in rendering an expert and hazardous service in the distribution of cotton.

Financial Recovery

Although occasional bank failures continue to be reported from the regions most seriously affected by the fall of farm products since 1920, they are almost invariably traceable to losses related to the period of inflation. The same as a rule is true of mortgage foreclosures. Reports differ as to the trend of land values and of sentiment in the farming districts. The preponderance of the testimony indicates an increasing number of farm sales and a more cheerful sentiment, but there are numerous reports to the contrary. Evidently the considerable number of farms acquired under foreclosure and offered for sale at or about cost to the holders, and very much below the prices at which they were valued when the mortgages were executed, has a depressing influence, not only upon land values but upon sentiment in the farming communities. Current prices for land, like the prices of everything else, depend upon the relation between supply and demand, and at present these holdings of foreclosed lands make the supply on the market exceptionally large. Not until these pass into the hands of permanent owners will the situation be normal. Even now sales are frequently reported at figures very much above the level of the distress offerings, due to the fact that the localities in which they occur are not under the immediate influence of such offerings.

It is very significant that according to experienced observers the net current returns upon farming operations in the last several years have represented a higher percentage upon current farm values than was realized when farm values were higher. This means that the decline of land values has been out of proportion to the decline of income, and to the extent that former values were not unduly speculative a readjustment upward is reasonably in order.

The capital value of all income-producing property changes with changes in long-term interest rates, reflecting the play of supply and demand. As capital accumulates and seeks investment the prices of investments will rise, unless the supply increases in like or greater proportion. The great advance in stocks and bonds which has occurred since 1921 has been largely due to this increasing supply of capital and the decline of long-term interest rates toward the pre-war level, and it is logical to reason that the same influence will be effective upon farm values.

A number of investment companies have been organized in the middle west for the purpose of buying farms that have been acquired by banks, insurance companies and others by foreclosure proceedings and which

are on the market at low prices. Such operations under experienced management should be profitable and help to restore the agricultural equilibrium.

Reports from Land Bank Presidents

The presidents of Federal Land Banks are in as close touch with agricultural conditions as any group of men in the country. A meeting of officials was held in Washington, D. C., last month and several of them were interviewed by the press as to farming conditions. President D. P. Hogan, of the Omaha institution, which includes Iowa, Nebraska, South Dakota and Wyoming in its territory, talked frankly about the situation. He said, in part:

"There is good reason to believe that the land market will soon repeat the recent record of the cattle market. Cattle were too high and there were too many cattle.

"In 1920 a period of drastic deflation set in and cattle declined continually in numbers until the present time. A few years ago cattle statistics showed that supplies had been sufficiently reduced but heifers and cows continued to be sent to the market until recently the cattle world awoke to unmistakable evidence of a shortage and prices went skyrocketing. Those that held on to their cattle in spite of adverse conditions and those that bought cattle within the last few years are now reaping rich rewards.

"Land prices were away too high in 1919 and had to come down. Considerable land was held on thin margins and was forced on the market. Liquidation and deflation in values continued apace. The percentage of urban population to be fed has greatly increased.

"Careful observers now find that the reduction in land values has gone too far. Country bankers in our district who are in close touch with the situation point to many instances where the rent of the land pays big interest on the present value. Many farmers are getting ahead and are looking around for bargains. Renters are finding that it is cheaper to pay interest than rent. The old desire to own a farm is returning. Almost everything else has gone up but land. It is the only cheap thing on the market."

President E. M. Erhardt, of the Federal Land Bank of Spokane, which includes in its territory the States of Oregon, Washington, Montana and Idaho, said, in part:

"The trend of land values in the Northwestern states is toward stability and higher prices. Among the favorable factors are low interest rates and the easy credit situation due to the improvement in country banking conditions, a large supply of funds for investment purposes and the increasing difficulty of finding sound investments returning satisfactory interest yields, good crop production, fair prices and increasing income, and a lesser number of foreclosures and consequently less forced liquidation. I am glad to say that farmers in our territory last year invested $2,000,000 in farms upon which the Federal Land Bank was forced to foreclose in former years. These have been bona fide sales and have been made mostly to farmers living in the northwestern states."

President G. M. H. Gassett, of the Federal Land Bank of Houston, Texas, said:

"Out of $8,500,000 due the Federal Land Bank of Houston during the year 1927, serving 56,000 farmers in Texas with long-term loans, all but $15,000 had been paid, a delinquency on installments amounting to less than one-fifth of 1 per cent. In the entire 10½ years in which the bank has been doing business we have acquired only 40 farms and only 25 of these remained unsold."

President James B. Davis, of the Federal Land Bank of Louisville, the territory of which includes Ohio, Indiana, Kentucky, and Tennessee, said:

"If the prompt payment of installments on loans made to the Federal Land Bank of Louisville is any criterion of the condition of farming in the States covered by this bank—Ohio, Indiana, Kentucky, and Tennessee—then the farmers are in a much better position than they have been in recent years. However, farmers in this territory have never failed to any considerable extent to meet their obligations, so far as the Federal Land Bank is concerned. With loans amounting to $120,000,000 the delinquency in process of collection in the last few months has only run to around $32,000.

"Considering the distressful conditions through which agriculture has passed since 1920, it is rather remarkable that the bank has had to foreclose on such a small number of farms. We have something like 45,000 loans and we have on hand about 119 farms. However, land is beginning to sell again and it will not be difficult to dispose of all of our holdings. We are now selling farms at the rate of about 3 to 5 farms a week and do not find it difficult to secure a good down payment."

President Vulusko Voiden, of the Federal Land Bank of Baltimore, the territory of which includes Maryland, Pennsylvania, Delaware, Virginia and West Virginia, said, in part:

"The farmers in the entire district are more optimistic than they have been for several years. There is little interest in legislation to aid them in their endeavors. There have been probably a few more foreclosures in the district during the year, but the majority of these were troublesome loans through the last several years. Farms are selling better."

President H. C. Arnold, of the Federal Land Bank of Columbia, S. C., the territory of which includes the two Carolinas and Georgia, said:

"There are more farms moving in this territory than at any time since the depression and the market is very much improved, although it still has a long way to go before prices are back at boom-time levels. However, since last August the Federal Land Bank of Columbia has sold about 120 farms valued at close to half a million dollars, and these are bona fide sales to farmers who are actually to farm the land.

"Agricultural conditions in the district are much improved, and we hope that they will continue to improve if our farmers will reduce the cotton acreage. But if they plant a big cotton acreage this year, then conditions will get worse in our opinion. It has been absolutely demonstrated that a crop within consumptive demands brings more money than a big crop. Agricultural conditions have been particularly good in the Piedmont section of South Carolina and Georgia and in southwest Georgia. In southern Georgia conditions are better due to diversification. Farmers have had good prices for tobacco, peanuts and other crops. With the exception of horses, there is a slow but steady increase in the amount of livestock in our territory—that is, hogs, cattle and poultry. Farmers who raise their own supplies at home and such other crops besides the cotton crop as they can find the market for, are reasonably prosperous."

The president of the St. Louis Federal Land Bank, in an address before representatives of local farm loan associations, said, "Delinquency is much less than a year ago." With $100,000,000 out in loans on farm lands, this bank has only 137 farms on its hands, with a value of less than $500,000.

The report of the Federal Land Bank Board for the year 1927 has not yet appeared, but it is known that net outstanding loans of the twelve banks on December 21st aggregated $1,155,643,871, against $1,077,818,724 on De-

cember 31, 1926. All but four of the banks are paying dividends on their stock, which is held by local National Farm Loan Associations, the members of which consist of the borrowing farmers. The four exceptions are the Banks at Springfield, Massachusetts, Columbia, St. Paul and Spokane. The Springfield bank has suspended dividends for the present as a precautionary measure, on account of losses which may be realized from the flood in Vermont. The Columbia, St. Paul and Spokane banks have suspended dividends on account of accumulations of land, but these holdings have been reduced in the past year. The suspension of dividends on this stock does not affect regular interest payments on the bond issues of these banks, but is simply a preventive measure.

It has been the usual practice of the Land Banks to charge off the cost of the lands acquired under foreclosure against surplus earnings, but in the case of the Spokane bank the foreclosures aggregated so large a sum that it was unable to do this even after suspending dividends. The other banks of the system came to its assistance. The Spokane bank, in a publication which it issues, under date September 1, 1927, has given the following account of this episode:

This bank grew rapidly in the early days. Its loans, bearing such a low rate of interest, naturally were very popular, as they still are. However, much of the country in which it made loans was new. There was no farming background and very little experience upon which to base judgment. It made loans in some territory when, in the light of later experience, it would have been wiser to have waited to see how farming would develop. Combined with, or following this experience, was the slump in the prices of agricultural products. A sorry chapter in farming followed, which it is unnecessary to recite. Many farmers lost their farms and many others were reduced to the verge of bankruptcy. This was due to general agricultural conditions which this bank was powerless to prevent. The bank was forced to foreclose upon many farms and others were deeded to it when the owners realized that they could not make a success, particularly under the conditions which prevailed. Even after being as lenient with these borrowers as the law would permit, The Federal Land Bank acquired 2,599 farms.

Since the Twelve Federal Land Banks have always followed the policy of charging off to surplus and undivided profits all farms which they are forced to take over, The Federal Land Bank found that this number would more than exhaust their accumulated funds of this kind. So, rather than impair its capital or reduce the collateral back of its bonds, the other eleven Federal Land Banks formed a commission to help the Spokane bank to carry the acquired farms until it could sell them. The banks agreed to advance from their earnings over a period of years, 50 cents for each 50 cents put up by the Spokane bank from its earnings. Thus these farms are being carried and disposed of as buyers are found.

In the last two years, since this arrangement has been in effect the bank and commission has sold or sold under contract 753 farms for $2,800,000, out of the total taken over. The above course has made it necessary for the borrowers from this bank to forego dividends since 1923, and the dividends paid by the other 11 banks doubtless would have been greater had they not extended such loyal aid to this institution. All advances by the sister banks will be returned from the sale of real estate and the balance added to the assets of this bank. To date they have advanced $3,614,107; $784,673 has been returned to them, and the Spokane Bank has invested from its earnings $4,233,663 in these farms.

The Spokane Bank had outstanding on September 1, 1927, loans aggregating about $94,000,000, to about 37,000 farmers.

Joint Stock Land Banks

The Joint Stock Land Banks now number 54, including three which are in the hands of receivers. The names of the latter and the dates upon which receivers were appointed are as follows:

Kansas City Joint Stock Bank, May 4, 1927.

Bankers Joint Stock of Milwaukee, July 1, 1927.

Ohio Joint Stock Bank of Cincinnati, September 1, 1927.

An assessment of 100 per cent has been levied upon the stock of the Milwaukee bank.

The outstanding loans of the Joint Stock banks on December 31, 1927, aggregated $609,476,969, and the total holdings of real estate including sheriffs' certificates and sales contracts were about $14,000,000 or about 2.3 per cent of the loans. The percentage is much increased by a few of the banks, which evidently suffered from bad management.

Money and Banking

During the month of February nine Federal reserve banks, including the Federal Reserve Bank of New York, established their rediscount rates at 4 per cent as compared with 3½ per cent prevailing previously. Inasmuch as two banks, Chicago and Richmond, had raised their rates in January, all the Reserve banks are now in line at the higher level except Cleveland which continues at 3½ per cent.

With the central bank rates at higher levels, open market rates have naturally tended to be firmer. As indicated, however, by the following table, the advances have been moderate in character; bankers' acceptances are somewhat lower, and commercial paper is no higher, than a year ago:

	Last Week of Feb. 1928	January Low Point	Last Week of Feb. 1927
Call Loans	4¼-4½	3½-4	4 -4½
Time Loans, 60-90 days	4½-4⅝	4⅛-4¼	4⅜-4½
Time Loans, 4-6 months	4½-4⅝	4⅛-4¼	4⅜-4½
Bills, 90-day (offering rate)	3½	3¼	3⅝-3¾
Commercial Paper, Best Names	4	3¾-4	4
Commercial Paper, Other Names	4¼	4¼	4¼

In view of the moderate character of commercial demands, and absence of any speculative tendencies in commodities, the advance in rates by the Reserve banks has been interpreted as a gesture of warning against too free an employment of credit in the stock market. As a consequence stock prices have undergone a considerable decline and the volume of brokerage loans which on February

8 had reached a peak of $3,835,000,000, declined in the succeeding two weeks by something over $100,000,000.

Compared with the drop of $680,000,000 in brokers' loans which followed the advance in the Reserve bank rate at the beginning of 1926, the decline this year to date has been of small proportions. Attention has been called to the fact that total member bank loans on securities, including not only the loans to brokers but also collateral loans to individual borrowers, have declined by $513,000,000, and the suggestion has been made that this reflects more liquidation than the brokers' loan figures themselves would indicate. In either case the loans still stand far above a year ago, the increases being $966,000,000 and $840,000,000 for brokers' loans and total collateral loans respectively.

A factor, however, to be taken into consideration is the substantial surplus of funds above ordinary commercial requirements that has been seeking investment. Due apparently to slow business conditions, currency requirements for payroll and other purposes have fallen over $150,000,000 lower than a year ago, and money thus released from circulation has tended to increase member bank reserve balances at the Reserve banks, enlarge the basis of credit, and provide new competition for investments.

Influences Affecting Money

Trend of money during coming months promises to be governed largely by the extent of business revival and by Federal reserve policy. Evidence of a slightly better commercial demand in February appeared in a moderate expansion of member bank commercial loans to levels approximately $100,000,000 higher than a year ago, which, should it prove to be the forerunner of an increased currency demand, would act as an influence in support of rates.

The attitude, moreover, of the Reserve banks is apparently opposed to further expansion of credit for the time being at least. Though the Reserve authorities have not in recent weeks used their open market operations to tighten money as in the early weeks of the year, relying apparently on seasonal influences to accomplish the same results, there is no reason to believe that they have abandoned their recently adopted firmer money policy. With their holdings of Government securities still $97,000,000 higher than a year ago, it is evident that they have the means at hand of making this policy effective in the market.

Gold Movements

Gold movements between the United States and foreign countries are also a factor to be considered in connection with the money situation. Since December the net gold outflow has slackened materially, although exports have continued to exceed imports. This is in contrast with the situation a year ago when the net gain in our gold stocks during January and February amounted to $87,000,000.

During February total gold exports at the port of New York amounted to $24,600,000, as against imports of $13,200,000, making a net loss of $11,400,000, which was further reduced by ear-marking operations to $8,400,000, or approximately the same as the loss sustained during January.

Imports during the month came chiefly from Canada and Russia, the Canadian shipments of $7,430,000 being a continuation of the seasonal movement begun in December and usual at this time of year. Receipt of $5,000,000 from Russia was of interest as being the first direct shipment to this country by the Soviet authorities, but inasmuch as this gold has been under ban by our Government it has not yet been admitted to assay and consequently has not become part of our monetary gold stocks.

Exports included the shipment of an additional $13,000,000 to Argentina, a movement resulting from the high level of the Argentine peso and one which brings the total exported to date to that country since last Summer to $94,000,000. Other sizable movements were $7,500,000 to France and $3,000,000 to Venezuela.

Announcement of the shipment of $7,500,000 to France, following a similar shipment early in January, and one of $10,000,000 appear to have given rise to reports that the French Government is contemplating withdrawal of a substantial amount of its large foreign balances in gold in connection with its stabilization program. With the central banks of the chief European money markets and our own, however, working in harmony, there seems little reason to fear any serious disturbance of the international money markets. While no information has been given out on this side, press despatches from abroad indicate that French withdrawals, already made or in prospect, affect only earmarked gold, in which case they will not be a factor in credit conditions.

A significant trend of the month was the recovery of sterling exchange from $4.86 31/32 at the year's low on February 3 to $4.88 1/16 on February 23. This movement, which accompanies a rise in the Bank of England's gold holdings to new high levels since September, 1925, emphasizes the improvement that has taken place in the British monetary position. At present levels, sterling is now back to within a cent of the point at which gold shipments to London would become profitable.

The Bond Market

The bond market during the month was reactionary and dull, the volume of trading in seasoned domestic bonds being considerably curtailed and prices for high grade issues showing substantial recessions. Foreign bonds, on the other hand, were active at new high levels, indicating at least a temporary swing to the higher yields still available in this group. Several convertible issues which have been bid up concurrently with the rise of the stocks into which the bonds are convertible were active on the downside in sympathy with the decline in stock values. There were also a few rather wide declines in the general list, but these were due mainly to adverse conditions within individual companies and not to factors which influenced the list as a whole.

Syndicates on desirable new issues have been almost uniformly successful in finding placement for their offerings, indicating that the supply of funds available for long term investment is undiminished and that the confidence of buyers has been unshaken by the course of events. Insurance company, savings bank and other institutional funds which have backed up during recent weeks are beginning to press more heavily for an outlet. Many able students of investment values and bond market trends are committed to the belief that prices for high grade investments can easily reach higher levels.

The Dow-Jones average for forty listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on February 25th was 99.06 as compared with 99.34 on January 25th and 96.40 on February 25th a year ago. Although the average has declined somewhat from the high of the year, it is still 2.66 higher than at this date last year.

United States Treasury Financing

The United States Government bond market is temporarily marking time pending publication of terms on forthcoming financing by the Secretary of the Treasury. Maturities to be met by the Treasury on March 15 total about $557,000,000, consisting of two different issues of certificates.

Dispatches from Washington indicate that the Treasury Department has modified somewhat its previously announced policy for the early retirement of circulation bonds and that the Panama 2s will be allowed to remain outstanding until the maturity of the Consol 2s on April 1st, 1930. The Panama 2s are subject to redemption upon any interest date and it had been expected that the bonds would be redeemed before maturity of the Consols, owing to the desire of the Treasury to replace as quickly as possible National Bank Notes with Federal Reserve Notes.

Municipal Market Firm

Although the buying appetite of municipal investors has abated somewhat, trading prices have shaded off but slightly and the technical position of the market is apparently even stronger than it was a month or two ago. The yield level of new offerings remains practically unchanged. Present demand is well balanced with the restricted supply, and issues in prospect are not of sufficient volume to cause apprehension as to the ability of the market to absorb them at current levels.

Among the new issues scheduled for early offering are $52,000,000 of the City of New York, Independent Subway 4 Per Cent Noncallable Four-year securities. These short term bonds are new in the city's financial structure. A sinking fund of $13,000,000 annually has been provided, this amount to be provided from direct budget appropriations and to be accumulated at interest in anticipation of retirement at maturity.

The State of New York will also offer early in the month new bonds aggregating $22,500,000; $12,500,000 of which will be 3½s maturing serially from 1929 to 1953, issued for state institution buildings, and $10,000,000 of general state improvements at rates not exceeding 4 per cent and maturing from 1929 to 1978. This is the first time that the State of New York has issued a bond with a 3½ per cent coupon. The lowest previous rate was 4 per cent, with the exception of a single issue of 3s put out many years ago and carrying a special 1 per cent exemption from state franchise taxes. This exemption made the bonds particularly attractive to institutions subject to the franchise levy. The last sale of New York State bonds occurred in September, 1926—an issue of One-to-Fifty-year 4s. Outstanding long term State 4s are now selling to yield around 3.60 per cent.

Of general interest is the recent endorsement by the special Joint Committee of the New York Legislature of proposed legislation to widen the "legal list" for state savings bank investment. In addition to completely revising that section of the law relating to municipals, bills now before the Legislature provide for admission to the legal list of certain public utility, telephone, equipment trust and other securities. The Committee's reference to municipals constitutes a remarkably strong endorsement of that class of securities and provisions of its bill will include between 300 and 400 additional issues. After several years of persistent effort to modernize New York's law so that savings banks would not be at a disadvantage in the employment of their earning assets, it now appears that something is to be accomplished.

Public Utilities

As a reflection of the sound position of the public utility industry and the popularity of bonds of corporations serving the public with heat, light and power, such bonds displayed marked strength, and averages established a new record high level during the month. Renewed efforts by the Interborough Rapid Transit Company to establish a seven-cent fare on its subway and elevated lines led to increasing activity in most New York traction issues. The comparatively low price at which these bonds have been selling for years is due to the fact that the five-cent fare still prevails on all lines in the greater city. The companies maintain that the present five-cent fare is inadequate to pay passenger costs, the deficit being borne indirectly by the citizens of New York City through taxation. Because of the tremendous investment in the traction industry in New York City, the contest between the companies and the city will be watched closely by investors and bond dealers. Should a favorable decision prevail, a considerable readjustment in the prices of outstanding bonds might logically follow.

In a statement accompanying its report to the New York State Legislature the special Joint Committee appointed last year to investigate the question of broadening savings bank investments has this to say concerning public utility bonds:

> The committee also finds that the stability of public utility and telephone issues of the better class has been amply demonstrated and the high standard of these securities is shown by the fact that they are in demand as investments by the large insurance companies and other classes of discriminating investors. These securities have already been made legal for mutual savings banks of eighteen States, and the bill offered by the committee proposing to legalize such investments in this State is conceded by all persons interested in the subject to be the most closely drawn of any of those in operation at the present time, insuring that only the highest grade securities of their class will be able to qualify.

Foreign Issues Active

Foreign issues generally were active during the month, Governments particularly maintaining a firm trend at or close to recent record levels. The foreign government group is not quickly responsive to money rates here because current yields are higher than yields on most domestic issues of comparable security. Recent strength is attributable not alone to the continued investment buying from those seeking the higher rates, but also in fair measure to political and economic progress in Europe and to successful termination of the Pan-American Congress in Havana. In the European group German and French issues were notably active and higher. French 7s at 108¼ and 7½s at 116⅝ are at record levels for all time. Berlin Electric Railway 6½s reached new highs and are currently quoted at around 96½. In the South American group Rio de Janeiro 8s of 1947 reached a new high of 110⅛ in anticipation of early redemption. Both the Province of Buenos Aires and City of Buenos Aires were active, the 7s reaching a new high of 101 as compared with a low for the year of 96⅛. All Argentine bonds were firm around their recent high levels, as were also Government issues of several other South American republics.

Two important foreign refunding issues were announced during the month: $15,000,000 Republic of Finland External 5½s due 1958 and $41,000,000 Province of Buenos Aires External 6s due 1961. Proceeds of the Finland issue are being applied to the redemption of the Government's so-called 6½ per cent "Scandinavian Loan" issued in Finnish marks in 1921. The new bonds were offered at 92½ and interest to yield 6.04 per cent to maturity and 6.22 per cent on average expectancy of redemption from sinking funds. The Finland dollar bonds first appeared in American markets in 1923, when an issue of Government 6s due 1945 was offered to yield 6.89 per cent. Proceeds of the new Buenos Aires issue are being applied to redemption of various external loans. This issue is a direct government obligation additionally secured by various license taxes, the Renta General portions of the commerce and industry taxes and by lien on real estate and inheritance taxes, subject to prior charges of $5,250,000 annually. The bonds were offered at 96½ and interest to yield about 6¼ per cent.

The Pan-American Conference

The Pan-American Conference which has been in session several weeks at Havana closed its sessions with manifestations of general satisfaction over the proceedings. All of the delegates signed the record of proceedings, although in some instances reservations were made by way of interpretation or qualification. It is not of great significance that complete unanimity upon every detail was not attained, but of real significance that all joined in this act of general approval and ratification. It was an expression of loyalty to the organization and of harmonious purposes.

President Coolidge gave recognition to the dignity and importance of the gathering by journeying to it and delivering an address voicing the cordial sentiments of this country toward the sister republics of America, as expressed from time to time by his predecessors in office.

The delegation from this country was composed of distinguished men chosen from both political parties, consisting of Charles E. Hughes, Henry P. Fletcher, Oscar Underwood, Dwight W. Morrow, Morgan J. O'Brien, James Brown Scott, Roy Lyman Wilbur, Leo

S. Rowe and N. B. Judah. Mr. Hughes, as Chairman of the delegation, was its spokesman, and presented the views of this country upon the chief subjects under discussion with great ability, clarity and candor, also with the utmost consideration for all opinions. The country is greatly indebted to him for his services.

The principal business before the Conference was that of reorganizing the Pan-American Union, the organization of 21 American republics which has been maintained at Washington and which was originally organized as the International Bureau of American Republics. The Pan-American Union has been governed by a Board consisting of the diplomatic representatives of the participating countries at Washington, with the Secretary of State of the United States acting for this country and by courtesy elected as Chairman. The Director in charge is elected by the Board and the activities of the organization for the most part have consisted in circulating information about the member countries and promoting in various ways intercourse and friendly relations between them. The Board, sitting once a month, has been an example of an international organization, non-political in character, deliberating upon mutual interests, and from this experience has developed the proposal for a reorganization of the body with a view to increasing its importance.

A Proposal for Freedom of Trade

One of the most important disagreements of the Conference arose over a draft of the preamble for the new constitution. Dr. Honorio Pueyrredon, the Ambassador of Argentina to the United States, and Chairman of the Argentine delegation in the Conference, proposed that the preamble should contain a declaration of the necessity of reducing excessive tariffs and removing other obstacles to the free flow of Inter-American trade. No doubt this sentiment would have much sympathetic approval in all countries, but it is obvious that the trade relations between the member countries of the Pan-American Union must be regulated by legislation in the several countries or by negotiations between the countries. The declaration would have no value except as a general expression of sentiment, and any attempt to apply it in a concrete case, or to enlist the influence of the Union in actual negotiations between member countries, might do injury to the organization. Moreover, it would be doubtful policy to attempt to place tariffs upon trade between the members of the Union upon a different basis from that of the tariffs between members and other countries.

Mr. Hughes in presenting the considerations against the proposal said, in part:

"Each of our countries has provisions relating to the import and export of products and raw materials which it thinks are essential and well devised. They may be debated, they may be the subject of international discussion, but the legislation in these respects, through the parliaments or congresses of the nations, represents the sovereign will.

"What Mexico will do in regard to oil production and export taxes; what Chile will require about nitrates; what Salvador will do with regard to the duties to be imposed upon various articles, are all matters which these countries have frequently determined in the expression of their internal authority.

"To introduce the Pan-American Union into these most delicate of all subjects, relating to the exercise by independent and sovereign States of their will with respect to the articles coming in or leaving their boundaries, would be simply to invite the destruction of the Pan-American Union by making it the centre of controversies which it could not resolve and by putting it in opposition to the parliaments and congresses of the various States."

Dr. Pueyrredon's desire presumably was simply to enlist the moral influence of the Union for more liberal trade relations, and he undoubtedly believes very earnestly that the body should take the position indicated, but the feeling of those opposed was that the movement in that direction must come spontaneously, by the growth of public opinion in the several countries, and cannot be forced. The sincerity of Dr. Pueyrredon's action is attested by the fact that upon receipt of a message from his home government advising him to modify his position he promptly forwarded his resignation not only as Chairman of the Argentine delegation in the Conference, but as Ambassador to the United States. This was a regrettable feature of the Conference, but it did not signify a serious division in the body.

The succeeding Chairman of the Argentine delegation announced that under instructions from its Government the delegation would sign the new convention, thus making the action unanimous, but would do so with regret that it did not contain the declaration proposed by Dr. Pueyrredon.

Mr. Hughes on Intervention

The other important difference which developed in the Conference was upon the subject of intervention. It had been predicted that an effort would be made to obtain an expression from the Conference which would bear the interpretation of being critical or condemnatory of the United States for having sent armed forces into certain countries of Latin-America upon several occasions. A proposal that the Conference include in its codification of international law a declaration against intervention under all circumstances was offered and debated in committee but dropped and no report upon it was submitted. It was brought up in the Conference and debated there but again dropped without a vote. Mr. Hughes opposed it upon the ground that international law recognizes the right of intervention under certain conditions, and that

action by the Conference would not alter it for nations outside the Conference; moreover, that under conditions such as had been known to exist intervention was justified. He said:

"I am not speaking of sporadic disorders, but of cases in which the Government itself is unable to function. It is a principle of international law that under such circumstances another Government has the right, I will not say to intervene, but to interpose in a temporary manner to protect the lives and interests of its nationals."

Mr. Hughes earnestly declared that the United States had no desire to encroach upon the independence of any other country. He said:

"It is the firm policy of the United States to respect the territorial integrity of the American republics. We have no policy of aggression. We wish for all, to the very smallest, strength and not weakness.

"We do not wish their territory. The rights we assert for ourselves we accord to others. Nothing could be happier for the United States than that all countries in the region of the Caribbean should be strong and self-sufficient.

He said that the United States had intervened in Cuba in the name of humanity and had aided the people of the island in establishing their independence. In a public address in Havana outside the Conference he frankly referred to San Domingo, Haiti and Nicaragua as follows:

"Several years ago the United States entered Santo Domingo. Did we endeavor to stay? On the contrary, we labored to get out. It would have been very easy to remain, but the Government of the United States was most solicitous to arrange for the termination of its occupancy and the withdrawal of its forces. Arrangements were made for a provisional Government and the establishment of a permanent Government. These arrangements were carried out and the United States withdrew. It was my happy privilege to be associated with those endeavors which had this successful fruition. If we had cherished an imperialistic purpose we should have remained in Santo Domingo, but we withdrew.

"We would leave Haiti any time we had reasonable expectations of stability and could be assured that withdrawal would not be an occasion for a recurrence of bloodshed. Meanwhile we are endeavoring in every important direction to assist in the establishment of conditions for stability and prosperity, not that we may stay in Haiti, but that we may get out at the earliest opportunity.

"We are at this moment in Nicaragua, but what we are doing there, and the commitments we have made, are at the request of both parties and in the interest of peace, order and a fair election. We have no desire to stay. We wish Nicaragua to be strong, prosperous and independent. We entered to meet an imperative but temporary exigency, and we shall retire as soon as possible.

These declarations are strong, clear and specific, made by Mr. Hughes in his capacity as Chairman of the United States delegation. There is no equivocation in them or reservation behind them. They constitute a record voluntarily made before the world. Furthermore, they express the will and purposes not only of the Government at Washington as at present constituted but of the people of the United States en masse and with practically no dissent. There would be no support in this country for any movement to annex territory.

Financial Interests Not Responsible

In behalf of the business interests of this country it deserves to be said also that intervention in the instances referred to was not primarily in their behalf. The marines were not sent to San Domingo, Haiti or Nicaragua to collect American claims, enforce American contracts or aid American traders. To the extent that indebtedness was a factor at all, European creditors were the claimants and the United States Government was interested that the Monroe Doctrine might not be challenged by the landing of European armed forces. It has been a principle of American statesmanship for 100 years, upon which political parties have not divided, that European authority must not be extended to new territory in the western hemisphere; but every administration at Washington has been aware that this doctrine might be difficult of justification if European troops were landed by reason of the failure of an American State to discharge the obligations to other nations which are recognized by international law. Hence the desire to avoid controversy upon that point. In each case action was prompted by a state of disorder which was beyond the control of the domestic government.

Arbitration Favored

Progress was made at Havana toward the development of a system of conciliation and arbitration. Delegates are to meet at Washington during the current year to continue the consideration of this subject. The delegation from the United States supported this proposal.

Various subjects of minor importance were dealt with, and the reorganization of the Union is expected to make it a more active and influential means of cooperation in affairs of common interest. It has an important field outside of political matters, but as to these it affords only an opportunity for interchange of views, inasmuch as they must be settled eventually by direct negotiation between the respective governments.